

Republic Economic

NEWSLETTER

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The Economy Remains in Focus as National Budget Approaches

OVERVIEW

With the presentation of the 2019/2020 National Budget just days away, the society continues to focus heavily on the subdued economic backdrop, against which it will be delivered. Many individuals and businesses continue to lament the failure of the previously reported improvement in the domestic economy to measurably improve their circumstances. A look at preliminary data for the second quarter of 2019 offers a good explanation. Simply put, economic activity is not yet strong enough. Conditions in both the energy sector and non-energy sector were mixed during the period. For instance, while gas production and prices fell in the second quarter, oil prices increased by 9 percent and its output expanded marginally. While there were signs that construction sector activity picked up in the second quarter compared to the first, the indications are that the distribution sector's experience was quite the opposite. Given these developments, Republic Bank estimates that the domestic economy recorded a flat performance during the quarter ending June 2019, compared to the previous quarter. Against this backdrop, the rate

of unemployment is estimated to have reached 5.3 percent. Despite the subdued performance, there was increased activity on the domestic stock market, with the Composite Price Index registering an encouraging 5 percent gain over the previous quarter.

ENERGY

During the second quarter of 2019, oil production increased slightly by 0.2 percent to average 59,274 barrels per day, while gas production was 8.3 percent below the levels achieved in the first quarter. Gas output fell to an average of 3.5 billion cubic feet per day (bcf/d) during the period. In terms of prices, the average West Texas Intermediate (WTI) oil price increased to US\$59.94 per barrel from US\$54.82 in the first quarter. On the other hand, the Henry Hub gas price fell to US\$2.56 per million British thermal units (MMBTU) from US\$2.92. In the downstream sector, ammonia and LNG production contracted by 2.3 percent and 12.3 percent, respectively, while methanol output remained flat. Regarding exploration activity, the total depth drilled during the period plunged by 36.4 percent, while rig days increased from 289 to 357 days.

The sector received a much-needed boost in September 2019, when Touchstone Exploration announced that gas was discovered in its first exploration well in the Ortoire block. This follows news in July that Australia-based BHP had encountered gas in three of its exploratory wells during phase 3 of its deep-water drilling campaign. The company also approved a US\$283 million investment programme to develop its Ruby oil and gas project, which is expected to add 16,000 barrels of oil and 80 million standard cubic feet of gas per day, after production begins in 2021. In September, government also announced its acceptance of the US\$700 million bid from OWTU-owned Patriotic Energies and Technologies Company for the refinery formerly operated by now defunct PETROTRIN. This revelation stoked both optimism for the future of the energy sector and questions surrounding the details of the deal.

NON-ENERGY

Available information suggests that meaningful momentum is yet to be gained in the non-energy sector. With domestic cement sales 12.5 percent higher in the second quarter of 2019 than in the first, construction sector activity was notably stronger between April and June. However, when compared with the same period in 2018, the construction sector shrank, given that cement sales were 3.5 percent lower on a year-on-year (y-o-y) basis (Figure 1). Cement sales are normally a good gauge of the health of the construction sector. New motor vehicle sales, which are used as a proxy for activity in the distribution sector, declined by 8.3 percent from first quarter 2019 levels and 3.5 percent on a y-o-y basis. The Index of Retail Sales, which registered a moderate 0.8 percent expansion

TRINIDAD AND TOBAGO KEY ECONOMIC INDICATORS

INDICATOR	2018	2018.2	2019.2 p/e
Real GDP (% change)	1.0	0.6*	0.5
Retail Prices (% change)	1.0	0.01	-0.2
Unemployment Rate (%)	5.2	5.0	5.3
Fiscal Surplus/Deficit (\$M)	-6,261.6	-1,347.5	-2,968.1
Bank Deposits (% change)	3.1	-0.3	0.1
Private Sector Bank Credit (% change)	4.8	-0.7	0.4
Net Foreign Reserves (US\$M)	10,995.4	10,734.6	9,760.3
Exchange Rate (TT\$/US\$)	6.73/6.78	6.73/6.80	6.73/6.78
Stock Market Comp. Price Index	1,302.48	1,235.23	1,394.1
Oil Price (WTI) (US\$ per barrel)	65.06	68.07	59.94
Gas Price (Henry Hub) (US\$ per mmbtu)	3.15	2.85	2.56

Source:

Central Bank of Trinidad and Tobago, TTSE, Energy Information Administration

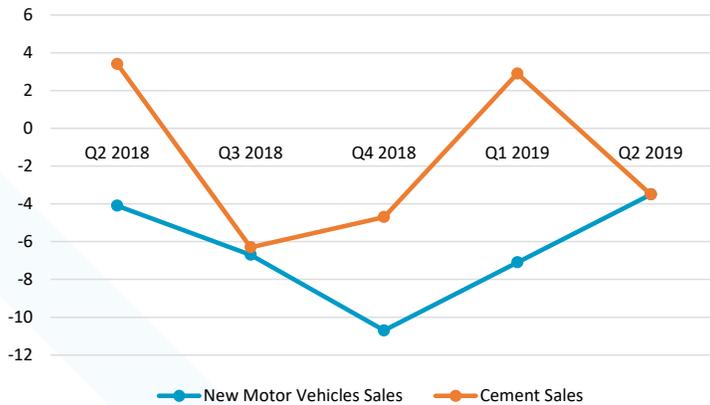
p - Provisional data

e - Republic Bank Limited estimate

* - Estimate based on CBTT's Index of Economic Activity

in the first quarter, is projected to have recorded another weak performance between April and June 2019. Overall, the non-energy sector continues to be constrained by subdued demand.

Figure 1. New Motor Vehicle Sales & Cement Sales (% y-o-y Change)

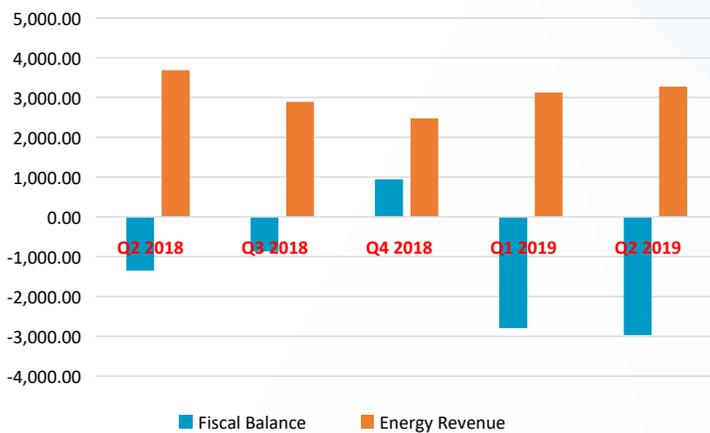


Source: CBTT

FISCAL

After expanding to \$2,793.9 million in the first quarter of 2019, the fiscal deficit deteriorated further to \$2,968.1 million in the succeeding quarter, more than double the \$1,347.8 million recorded between April and June 2018 (Figure 2). This was a result of a 10.9 percent y-o-y fall in central government revenue and a 3.8 percent increase in expenditure. Energy sector revenue contracted by 11.3 percent y-o-y to \$3,270.3 million, while non-energy revenue fell by 10.7 percent to \$6,246.4 million. During the period, current expenditure and capital expenditure increased by 3.2 percent and 9.4 percent, respectively. Citizens will no doubt be anxious to receive the Finance Minister's report on the full year's fiscal outturn.

Figure 2. Fiscal Balance & Energy Revenue (\$Mn)



Source: CBTT

MONETARY

Domestic inflationary pressures remained muted during the period, as headline inflation averaged 1 percent, while core inflation and the food component averaged 1.2 percent and 0.7 percent, respectively. At its June 2019 monetary policy announcement, the Central Bank's Monetary Policy Committee (MPC) maintained the 'Repo' rate at 5 percent. In making the decision the MPC took note of continued low inflationary pressures, anemic activity in the non-energy sector and the likely cut in US benchmark rates. A month later, the Federal Reserve cut US benchmark rates by 25 basis points in July, as fears of a slowing economy began to manifest. The Fed cut rates again in September 2019, in response to rising global economic risks and is likely to execute another rate cut before the end of 2019. This has significantly eased the external pressures confronting the MPC. The 'Repo' rate was not adjusted in the September 2019 monetary policy announcement, as domestic economic activity and inflation remain subdued.

Notwithstanding the challenging economic environment, the demand for credit remained at encouraging levels between April and June 2019. Commercial banks' credit to businesses expanded by 4.0 percent y-o-y during the period but was only 0.4 percent above first quarter levels. At the same time, consumer credit increased by 1.4 percent over the first quarter and 6.7 percent y-o-y, while mortgage loans grew by 2.1 percent over the previous quarter and 7 percent y-o-y. The growth of credit demand occurred in an environment where the commercial banks' average prime lending rate remained at 9.26 percent, after rising to that level in the first quarter.

RESERVES

It goes without saying, that the fall in energy sector revenue did not aid the country's foreign exchange position, especially given still strong demand. In the second quarter of 2019, Trinidad and Tobago's stock of foreign exchange represented by the net foreign position continued to trend down, falling to US\$9,760.3 million or 7.9 months of import cover (MIC) in June, from US\$9,963.6 million (8.3 MIC) in March 2019. Against this backdrop, the market for foreign exchange remains very tight. During the period, the net sale of foreign currency increased by 24.8 percent from the previous quarter to US\$447 million and by 16.4 percent, compared to the figure recorded during the same period in 2018. The TT/US exchange rate remained at TT\$6.78 per US\$1.

OUTLOOK

Heading into the final quarter of the year, the non-energy sector is expected to benefit from the seasonal boost, which normally occurs at that time. The sector may receive further stimulus if local government elections are held during the period. Government's drive to continue and complete key projects is expected to result in a positive performance in the construction sector during the second half of 2019. While geopolitical tensions, including the September 2019 attack on a Saudi Arabian petroleum plant may help to keep oil prices elevated in the last three months of the year, low domestic oil production means that this country is unlikely to benefit significantly. Overall, economic activity is projected to increase marginally in the second half of the year.

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Striving For More

Caribbean States: Victims of the Vagaries (REN issue: June 2010) references the struggle faced by regional countries to recover from the 'Great Recession'. The circumstances are somewhat different now... somewhat. A tourism industry buoyed by healthy North American arrivals in recent years, has allowed Caribbean countries to either consolidate their position or recover from hurricane damage relatively quickly. However, other than hitching its collective wagon to a North American star instead of a European one, little about the region has changed. To be fair, based on Caribbean countries' small size (economy, population and geographic area) it is perhaps inevitable that they would be price-takers with little or no power or influence; and their leaders, after all, are simply trying to play the hand they have been dealt to the best of their ability. But what of transformational leadership? Where are those with true 20/20 vision to chart a bold new course (REN issue: March 2018)? What if instead of a metropole we hitched our wagon to excellence, innovation and service? What if we became less vulnerable to shocks because we secured markets, customers and investors from all over the world? Far from being 'pie in the sky' notions, these are real goals to which we should aspire. The first and perhaps biggest challenge is likely to be fostering the willpower to move from where we safely are and strive and strain to reach where we can be.

BARBADOS

The economy registered steady progress during the first half of the year. Tourism activity increased by 3.9 percent during the period, due in part to a 4.5 percent increase in stay-over arrivals. In addition to higher arrivals, earnings in the sector were also boosted by higher average daily room rates. However, layoffs and a slow pick-up of projects led to a 5 percent decline in construction activity. Economic output declined by 0.2 percent in the first half of 2019, as the healthy tourism performance was offset by the impact of fiscal consolidation on demand together with weaker-than-expected investment. Notwithstanding this, international reserves grew by \$204.2 million in the first half of 2019 to reach \$1.2 billion or 15.3 weeks of import cover. The reserves position benefited from low outflows for debt payments due to the suspension of commercial external debt servicing, the proceeds from a second IMF drawdown as well as increased tourism earnings. At the end of June, public debt stood at 124.2 percent of GDP. Credit demand remained weak, resulting in persistently high levels of commercial bank excess cash reserves. Preliminary data suggest that deposit taking institutions'

credit to the private sector fell in the first half of the year. Domestic deposits grew by 2 percent compared to a small decline for the corresponding period last year. In early July, Moody's Investor Service upgraded Barbados' foreign and local currency issuer ratings from Caa3 to Caa1, due to its improved debt service capacity. However, the country's foreign currency senior unsecured bonds remained at Caa3, owing to government's failure to reach a restructuring agreement with foreign creditors thus far.

CUBA

During the first quarter of 2019 stay-over arrivals increased by 4.9 percent, with arrivals from the US up 90 percent over the same period in 2018. Visitors from the largest market, Canada, increased by 3.4 percent. Despite this strong start, US travel restrictions and a June 5th ban on cruise ships visiting Cuba, curbed the country's tourist arrival numbers, with a 20 percent decline recorded in June. On April 12th, state media reported that Cuban retail sales fell sharply through March, due to shortages of basic goods. Internal Trade Minister Betsy Diaz Velazquez explained that food shortages this year, ranging from cooking oil and eggs to bread and chicken were largely due to fewer imports of spare parts, feed and food. To compound matters, the country's sugar output came in 13 percent below the expected target. On a brighter note Cuba and China signed two agreements in June with the objective of promoting economic cooperation. Recently, the authorities approved a number of measures to boost the economy; among them, increases in salaries for workers in the budgeted sector, and pensions. On July 27th, Cuba legalised the importation, ownership and private use of routers and other internet equipment. Internet connectivity has been increasing quickly even before this move as already, thousands of routers and other items of internet equipment are smuggled into Cuba, sustaining private networks in households and apartment blocks throughout the island. In 2017, the number of internet users increased by 32 percent, and data from Cuba's national statistics office revealed that the number of internet users rose by 9.6 percent year on year in 2018, to more than 6.5 million (out of a population of 11.2m). This amounts to 58.4 internet users per 100 inhabitants.

GRENADA

The tourism sector continued to grow albeit at a slower pace, as the stay-over market grew by 3.8 percent for the first half of 2019. The US was the major source market for tourist arrivals with 45 percent of the share of visitors. Total visitor expenditure increased slightly by 1.1 percent in the first

quarter of 2019 compared to the first quarter of 2018. The future of the tourism industry seems bright with a number of projects set to be completed in the next year. The new all-inclusive resort from the Royalton Luxury Resorts is carded to be completed in March 2020, while Range Development will take on two new projects, the Park Hyatt and Six Sense at a cost of US\$130 million. Following the IMF Article IV consultation in June 2019, Grenada was commended for its continued strong fiscal performance and debt reduction. The fiscal surplus increased from 3 percent of GDP in 2017 to 4.8 percent of GDP in 2018. Strict adherence to the Fiscal Responsibility Law (FRL) resulted in the public debt falling from 90.1 percent of GDP in 2015 to 63.4 percent of GDP in 2018. The IMF projects debt to GDP to be around 60 percent by the end of this year as the government continues to comply with the FRL. The financial sector seems sound as the capital adequacy ratio (CAR) improved from 13.3 percent in March 2018 to 13.5 percent in March 2019, while the non-performing loans (NPLs) ratio fell from 3.5 percent to 2.3 percent in the same period.

GUYANA

In the first half of 2019, expansions in key sectors such as rice, forestry, gold, manufacturing, construction, wholesale and retail trade, and financial and insurance activities have contributed to estimated economic growth of 4 percent. The rice sector grew by an estimated 3.7 percent due to improvements in both the number of hectares harvested and the yield. On the other hand, sugar production from the first crop fell short of the target by 1 percent, with output reaching 33,531 metric tonnes of sugar. The mining and quarrying sector is estimated to have grown by 2.6 percent in the first half of 2019, as a 4.4 percent expansion in the gold mining subsector, with production of 300,674 ounces, was enough to offset lower production in bauxite and other mining categories. For January to June 2019, central government registered an overall fiscal surplus of \$2.4 billion compared to \$3.1 billion in the same period in 2018. A total of \$24.5 billion was expended on the Public Sector Investment Programme (PSIP) during the first half of 2019, reflecting a 29.3 percent increase over the same period of 2018. This represents an overall implementation rate of 35.4 percent of the budgeted allocation of \$69.3 billion, the highest half-year implementation rate in the last 6 years. Notwithstanding this increase, the state continues to face challenges with the implementation of the PSIP. At the end of June 2019, Guyana's stock of total public debt amounted to US\$1,657.8 million, a marginal increase of 1.5 percent over the 2018 half-year position of US\$1,634 million. On September 6th, several Commissioners at the Guyana Elections Commission (GECOM), indicated that March 2020 is the earliest possible time General and Regional Elections can be held.

SURINAME

In early April, the Islamic Trade Finance Corporation (ITFC) an affiliate of the Islamic Development Bank (of which Suriname

has been a member since December 2018), agreed to financing initiatives in Suriname totaling US\$100 million. Of this, US\$75 million will be used to provide credit and other financial support to small and medium sized enterprises, including funding investments, as well as providing technical assistance and trade promotion. The remaining US\$25 million will be used for trade financing, particularly of agricultural products. This is intended to provide a means for importers to pay for goods in Suriname dollars, with the ITFC making hard currency payments to suppliers. In July, the World Bank agreed to provide a US\$23 million loan to Suriname to promote good international practices for sector governance and the promotion of sector diversification. In this same month, the Centrale Bank van Suriname (CBvS, the central bank) announced changes to the cash reserve policy for private banks. These banks must now deposit the entirety of their euro reserves at the CBvS (up from 50 percent previously), as well as 50 percent of US dollar reserves and 35 percent of Suriname dollar holdings.

REGION

Following solid GDP growth in 2018, virtually all member countries of the Organisation of Eastern Caribbean States (OECS) are poised for economic expansion in 2019, driven by strong performances in key sectors. For the first three months of the year, Antigua Barbuda, St. Kitts Nevis and St. Vincent and the Grenadines registered growth in tourist arrivals of 6.3 percent, 16.8 percent and 7.2 percent, respectively. For the January to May period, Anguilla, Dominica and St. Lucia saw increased arrivals of 155 percent, 75.7 percent and 6.1 percent, respectively. In most instances, the United States continued to be the main source market, and the economy was boosted by healthy construction sector activity.

Jamaica also is in good stead, having received US\$2 billion in revenue from the approximately 2 million tourists that it hosted in the first six months of 2019. The country's economy grew by 1.7 percent in the first quarter and the unemployment rate fell by 2 percent (year-on-year) to a record low 7.8 percent in April this year.

OUTLOOK

Over the next six months, the US economy should remain strong enough, while that of the UK is likely to be roiled by disruption and uncertainty. Tourism across the Caribbean, including the Bahamas, is likely to remain buoyant, while economic activity in most of the smaller states is likely to also be supported by healthy construction activity. Notwithstanding current geo-political tension, crude oil prices (West Texas Intermediate) are unlikely to deviate significantly from the US\$50-60 a barrel range. Gold and petrochemical prices could soften somewhat in the near term, translating to slightly lower returns for commodity exporters in the coming months.



Time to Bite the Bullet

As a country seeking to transition to developed-nation status, it is incumbent on us to bring resolution to key issues that continue to impede Trinidad and Tobago's development. These challenges are broad based, affecting the economy, key institutions, government's finances and social security, to name a few. We have known for a long time that we must move to address these issues, but only seem motivated to do so when tough economic times bring them into sharper focus. As such, there have been many initiatives announced, several started, but very little follow through. When it comes to bringing rectitude to these failings, the general approach has been to kick the proverbial can down the road. This note highlights the challenges the nation faces in two key areas, namely social security and the management of data.

Social Security – The Case of the NIS

The tenth actuarial review of the National Insurance System (NIS), conducted in 2016 indicated that if no changes are made to the way it operates, the assets of the National Insurance Board (NIB) will be depleted by 2036. Since 2013, the benefits paid from the system exceeded the contributions made. To fund the shortfall, some of the income generated by NIB's investment fund has been used to pay benefits. It is worth noting that 23 benefits are paid from the NIS, including pensions, disability grants and maternity benefits. Given the important social protection the system provides, mechanisms must be put in place to significantly enhance its long-term viability.

The actuarial review recommended an increase in the contribution rate of employers and workers to the NIS from 13.2 percent to 16.2 percent, starting in July 2019. This increase is expected to push back the date of depletion for NIB's assets to 2043. To ensure that depletion does not occur over the next 50 years, the rate of contribution is required

to increase to 25.5 percent. It was also recommended that the minimum monthly pension of \$3,000 be frozen for the next nine years or until pensions equal 80 percent of the minimum wage. Currently, minimum pensions from the NIS equal 115 percent of the minimum wage, whereas the international norm is for it to average between 40-80 percent. The freeze will help to protect the system from additional pressure and bring pension payments closer to international standards. Finally, the review indicated that the retirement age should be increased to 65, with the application of reduction factors for persons taking early retirement. In particular, the report suggests that the minimum pension should be reduced by 6 percent for every year before age 65 a person chooses to retire.

The NIB has indicated its intention to gradually increase the retirement age from 60 to 65 over a ten-year period starting in 2025. Individuals will still be allowed to retire at age 60. However, the appropriate reduction factor will be applied to the pensions of those individuals who chose to retire before age 65. If the contribution rate is also increased to 16.2

percent and the freeze is adopted, the year of depletion is expected to be pushed back to 2054.

Admittedly, there are quite a few countries now facing similar challenges with their social security programmes. As a result, the situation in Trinidad and Tobago is by no means a new phenomenon. Additionally, it will be extremely naive to think that the recommendations presented in the actuarial review can be implemented without significant difficulty or sacrifice. Not all the recommendations are new. For example, the need to increase the contribution rate was highlighted before. However, with the increasing demands placed on NIB's investment fund, the urgency of the situation cannot be overstated. Although the authorities have acknowledged the need to act, it remains to be seen

Yet, for years, across several administrations, the CSO has not been supplied with the requisite legislative clout, level of resources and appropriate structure to ensure its operations remain modern, efficient and relevant. The result of this has been an organisation that cannot keep up with the information needs of society in a rapidly changing world. For instance, the latest available unemployment data from the CSO is for the fourth quarter of 2017, though we are in September 2019.

The absence of timely, reliable macroeconomic data creates significant uncertainty for businesses, since they will find it difficult to monitor trends and anticipate market developments. This uncertainty could constrain investment and thus cause the economy to perform at levels well

“The damage imposed by the inadequacies of key support institutions extend well beyond our personal anguish.”

how quickly and to what extent initiatives are implemented to significantly enhance the long-term viability of the NIS. What we all should bear in mind, is that the longer we take to rectify the problem, the more drastic the policy adjustments that will be needed. Considering the need to consult with key stakeholders such as the labour movement, the reform process is likely to be complicated and lengthy, so let's get to it.

The CSO and Data Management

It is a regular occurrence for us to vent our frustrations concerning the inefficiencies we encounter in accessing the services provided by the country's major support institutions. In fact, for many of us the mere thought of having to visit certain government offices generates strong feelings of annoyance and trepidation. However, the damage imposed by the inadequacies of key support institutions extend well beyond our personal anguish. Such deficiencies result in major delays, foster corruption and ultimately constrain economic activity. For this reason, there must be a heavy focus on institutional strengthening for Trinidad and Tobago to achieve its major development goals. If we are to successfully diversify the economy, generate long-term growth or even combat corruption, it is essential to have strong and efficient support institutions. This includes the Central Statistical Office (CSO).

The adage “what gets measured gets done” simply reminds us that if we don't track our progress and review the effectiveness of our policies, we are likely to fall short of our objectives. However, without reliable and timely data it can be very difficult to monitor progress. In this country, the CSO is the primary agency responsible for gathering, organising and publishing data, especially economic data.

below its potential. Consequently, in recent years, multi-lateral agencies like the International Monetary Fund (IMF) and international credit rating agencies have repeatedly flagged the unavailability of timely data as cause for major concern. In fact, issues surrounding quality and timeliness of macroeconomic data partly contributed to the credit rating downgrades the country suffered at the hands of Moody's and Standard and Poor's.

The authorities have recognised the need to rectify the situation and have moved to replace the CSO with the National Statistical Institute of Trinidad and Tobago (NSITT). Once introduced, the new organisation will have increased legislative power which is expected to enhance the management of data, including the collection process. The NSITT, once operationalised will have a more modern structure than the CSO's outdated setup. The National Statistical Institute of Trinidad and Tobago Bill is currently before a joint select committee. The bill will require a special majority of three-fifths of the members of each House to be passed. Given the ongoing challenges of the CSO and the harsh consequences it continues to impose on the country, it is the collective hope of key stakeholders that the NSITT becomes a reality sooner rather than later.

The current circumstances confronting the NIS and the CSO dictate that decisive corrective action is taken to ensure that their long-term viability and relevance are substantially enhanced. While these are not the only areas which require urgent attention and action, they are among the most important. Unfortunately, if we continue to delay critical reforms in these and other areas, we will only increase the pain of the required adjustments in the future. The time to act is now.